Purchasing World

THE BUYER'S MAGAZINE

NOVEMBER 1989

Domino's president Don Vlcek (left) fills new box for Purchasing Director Jim Caldwell

Purchasing finds packaging solution

Negotiations: there's no end to them • Price hikes seen slowing.

Commodity reports • Big spenders get big wheel treatment.

PW SURVEY
Tell us what you think about imports.

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Little hazardous waste creates big headache

Generating small amounts of hazardous liquid waste can sometimes create a bigger headache than spewing out a river of refuse. Disposal for the large waste generator becomes a way of life while firms that have only a little waste have trouble finding anyone to bother with their problem.

Safety-Kleen Corp., Elgin, IL, may have the solution. Its Fluid Recovery Service specializes in picking up and disposing of as little as one or two barrels of liquid hazardous waste. In their operation, the firm analyzes the waste and then arranges to pick it up at regularly scheduled intervals. Depending on content, the material is either recycled, processed into a chemical fuel for use by another firm, or disposed of.

Written certification of proper handling and disposition is provided to meet federal and state regulations.

"Grease Jockey" lubes trucks on the go

Maintaining truck fleets has just become easier. On-board centralized lubrication systems which depend on compressed air have been extended to electric power.

Lubriquip Inc., Cleveland, has taken its original air-powered Grease Jockey and adapted it to be run on the vehicle's battery. The electric-motor driven system permits class 5, 6, and 7 vehicles that are not equipped with air compressors to be fitted with a central lubrication maintenance system. The electric version produces 1,250 psi which pushes greases through distribution lines to up to 100 points at a time.

The Grease Jockey dispenses the lubricant at pre-set time intervals—from 1 minute to 6 hours—automatically, thus eliminating the need for manual lubrication which requires manpower and involves taking the equipment out of service.

"All fleet owners whether their trucks have compressors or not, can now obtain an automatic chassis lube system to meet their specific maintenance needs," claims James R. Pugh, Lubriquip marketing vice president. He indicates potential applications include pickup and delivery fleets such as beverage and parcel trucks; certain front-end loaders; and street sweepers.

Computer helps you tap British market

If you are interested in tapping European suppliers but don't know where to start, most countries have a computerized system similar to that developed by the United Kingdom. Its Export Intelligence Service (EIS) puts overseas buyers in touch with UK manufacturers and exporters quickly. Access to such a service is made through the Commercial Dept. of the British embassy or consulate office located in 12 major cities spread across the United States.

Details of your requirements are telexed into the EIS computer system and matched to the individual interests of more than 6,000 firms and 80 trade associations who subscribe to the service. The interested UK firms can then contact the inquiring firm directly.

British firms identify their markets and products specifically to minimize wasted time because of misinformed leads, the British government contends.

Quality assurance goes cooperative

Meeting the quality assurance needs of your customers can become a real problem in keeping business, particularly for the smaller firm.

IQS Inc., Cleveland, has what it claims is a potential solution. It has organized a Manufacturing Quality Assurance Cooperative. Membership is limited to 200 companies. The entry fee is $500 in addition to a $500 quarterly charge for a two year period. According to IQS, members receive a two-year strategic quality improvement plan, a quality manual, technical workshops, computer software, and a satisfaction guarantee.

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by Robert S. Reichard, executive editor

PMs report more price declines

It sounds almost too good to be true. But industrial purchasing managers have been reporting more price declines than increases for four consecutive months now.

Upshot: the widely monitored NAPM (National Assn. of Purchasing Management) price barometer which averages increases and decreases is now well below the neutral 50 mark—and at latest report was at its lowest level in nearly 3.5 years.

On a product-by-product basis, some 25 manufactured items were reported as being lower in price over the past month (*versus* only nine which were listed as being higher). That's not all that much difference from the previous month when 29 items were lower and only nine higher.

Lending further credence to the feeling that inflation is on the wane are:

1) Recent declines in commodity prices—with *PW's* raw material price barometer off some 2.5% from spring peaks.

2) A similar third quarter 1989 falloff in Uncle Sam's more comprehensive industrial producer price index.

3) Relatively restrained unit labor cost increases which look to remain in the tolerable 4.5% range into 1990—and even lower if you zero in on the manufacturing sector.

4) The increasingly cautious price tone now being voiced by manufacturers.

On the latter score, a new Dun & Bradstreet survey finds that only 39% of queried factory executives see this quarter's selling prices above a year ago. That's a seven percentage point drop from last fall when a similar question was posed.

Equally encouraging: the inflation slowdown may be due to more than just the current mild deceleration in overall GNP growth. Certainly today's slow monetary growth has to be considered a factor. Recently in the 3% range, it's a far cry from the 10% peak recorded as recently as early 1987.

Then there's ample capacity—something of a surprise after nearly seven years of solid advances. In any case, factory utilization remains below the 85% level that normally triggers off shortages. And the rate is likely to hold at current levels, or even fall a bit, as U.S. capital spending rises an estimated 10% this year.

Nor is this improved supply availability limited to the U.S. Big capacity increases are also reported in Japan, South Korea, Germany and a host of other industrial countries. Point to keep in mind: as the supply side of the global economy expands, competition should intensify, thereby keeping a further lid on inflation.

The somewhat stronger dollar noted of late is still another factor likely to help keep down the average price level. Other things being equal, it enables Americans to buy foreign goods more cheaply and at the same time tends to sharpen the already strong import competition faced by American vendors.

This import competition is perhaps best illustrated in the auto sector. In any case, while sticker tags have jumped anywhere from 6-8% on average, the typical buyer is paying little more than he did last year—thanks to the proliferation of cash rebates.

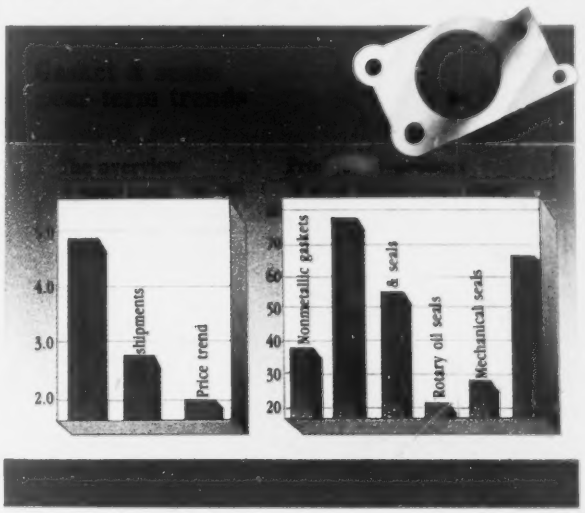
And what's true of family purchases is equally true in the industrial sphere—as increased price shading keeps transaction prices from rising. This discounting is pretty endemic now—embracing such key procurement areas as plastics, steel, chemicals, paper products, and electronic components.

Finally there's the energy factor. OPEC is having trouble holding on to its current low $15/barrel price. This can't be underestimated as an inflation inhibitor. Reason: energy not only has a cost impact on every single industry, but it also has a strong psychological effect. It's no coincidence, for example, that the two big rounds of inflation over the past 20 years coincided with double and triple-digit oil price runups.

Gasket prices up slightly

Look for the gasket and seal industry to grow at a relatively modest pace—just about in line with the general economy. More important from the purchasing angle—price increases should be quite small—actually under the overall GNP inflation rate through the next five years.

On the price front, for example, a new Freedonia Group study projects only a 2% overall annual rate of increase over the 1988-93 period (see chart). The Cleveland-based research firm credits this restraint to strong competition—spurred on by foreign inroads and less-



than-average industry concentration (the four top producers account for only one-fifth of all products shipped.)

Coming back to demand—continuing increases will be sparked by the transportation and machinery markets, and equipment upgrading. All told, average annual gains through 1993 should come to around 4.9% in current dollar terms and 2.8% in real or deflated terms.

On a product basis, the biggest advances are seen in the metallic gasket and compression packings categories where annual current dollar increases of 7.8% and 6.8% are forecast.

Strength in metallic gaskets is based on the acceptance of improved products by the aerospace and process industries. Compression packings will benefit from growth in pumps, utilities, and a rebounding steel industry.

A slower 3.9% average annual advance is seen for nonmetallic gaskets (the largest subcategory). Molded packings and seals, meantime, will enjoy above average growth due to the advantage of their "automatic" nature in many applications. But current dollar gains in both rotary oil seals and mechanical seal shipments will be under 3% a year.

Viewed from an end-use perspective, OEM requirements will be the fastest growing—driven by export strength in the machinery and electronic equipment markets. The less cyclical MRO market, however, will remain the largest (57% of total shipments) bolstered by transportation equipment, servicing and rebounding mining markets.

Software cuts prices further

Competitive pressures are making for softer prices, with another 5-10% expected to be shaved off the average quote over the next 12 months. Adding to weakness: disappointing growth as dollar sales over the latest quarter run only 9% ahead of a year ago (compared to the 41% jump of a year earlier). Especially vulnerable are older packages. Also worth noting: software makers are updating some of their offerings so they do more work on less powerful PCs. Examples: Lotus' Release 2.2 of its 1-2-3 program and Ashton-Tate's simpler version of dBase IV.

PC prices keep buyers awake

Falling prices and new innovations continue to keep buyers on their toes. On the price front, IBM has cut tags on some of its older PS/2 models anywhere from 6-20%. Meantime, Hewlett-Packard expects to start shipping new machines in early 1990 that use the new Extended Industry Standard Architecture (EISA)—an alternate to IBM's Microchannel standard used in the firm's PS/2 line. And elsewhere, Compaq has unveiled its new notebook-sized computer—a lightweight, battery-driven portable that is expected to challenge Zenith MiniSport.

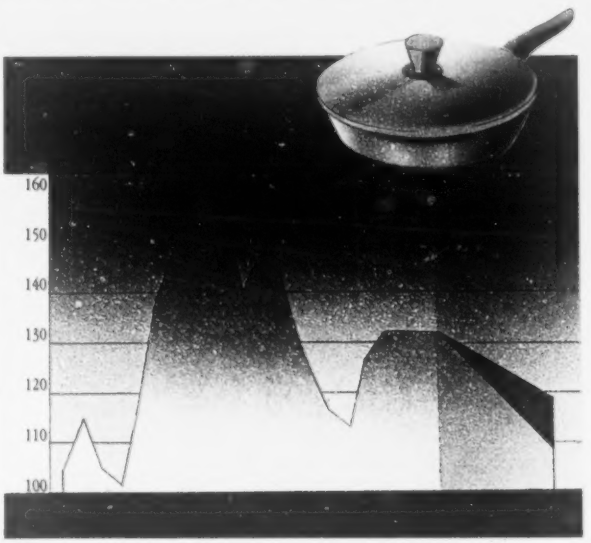
Copper prices stay high

CURRENT SITUATION: Recent market rallies have been fueled by strike interruptions rather than any underlying supply imbalance. Six months ago the conventional wisdom had today's price at around $1/lb. But with all the unexpected work stoppages—plus somewhat stronger-than-expected demand—the red metal remains far higher. **Adding to the upward pressure are razor-thin global inventories** (now under a 4-week supply.)

DEMAND: While worldwide consumption gains have slowed down somewhat, usage is still higher than a year ago. Thus based on year-to-date figures, **U.S. chewup could be up as much as 4% this year. And for the world as a whole, the gain looks to be somewhere in the order of 2%**—not all that much under 1988's estimated 2.7% advance. One reason for the rather good showing: the metal historically has been the last commodity to fall when the economy slacks off.

SUPPLY: It's been a rough year to predict—given all the labor problems. As recently as June, for example, the industry was talking in terms of a small 1989 surplus. Not so any more. **But better balance is coming** (assuming current problems can be resolved)—**perhaps as early as the first quarter of 1990.** Aiding the trend will be about a 3% increase in U.S. production—sparked by use of the low-cost solvent extraction-electrowinning (SX-EW) process.

PRICE OUTLOOK: Calling the run on the historically volatile metal is never easy. But assuming better balance is achieved on target, then **some 10-20¢/lb. could be whittled off today's inflated quote by early spring.** Even that, however, is a relatively high price. The SX-EW process, for example, has allowed Phelps Dodge to bring costs down to 55¢/lb.—far under the 80¢/lb. level of just five years earlier. **In short, both cost and supply/demand considerations point to lower tags.**



Pollution, safety costs, go up

The buying of non-productive equipment (notably for pollution control and safety) could be requiring a good deal more of the average PM's time in the months ahead. The evidence:

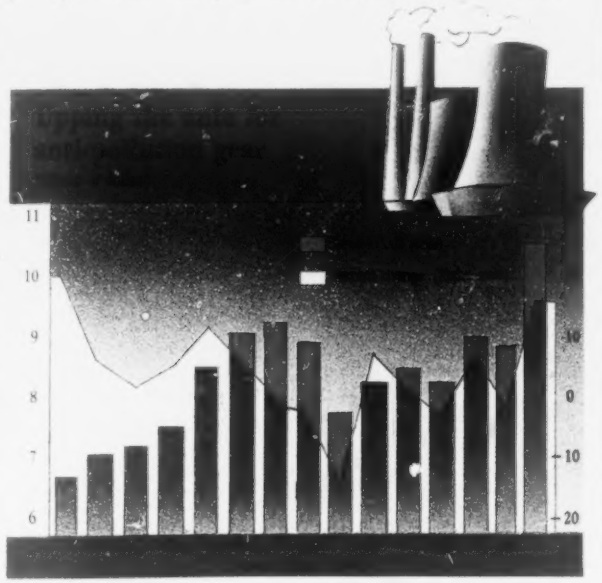
- **Pollution control:** A new DRI/McGraw-hill survey suggests outlays on new plant and equipment for pollution abatement will jump 18.4% this year—a major change from the cutbacks of the past few years.
- **Safety gear:** The Labor Department has announced plans to revise its 20-year-old safety standard for protective equipment to benefit 22 million Americans who need to wear hardhats, face shields, safety glasses, and safety shoes on the job.

Uncle Sam's regulators figure that the updated safety standards will cost industry and labor $28.3 million annually for improved personal safety equipment. In any case, OSHA studies show that 2.8 million workers, or 12.8%, who should be wearing personal safety gear currently do not.

Coming back to pollution control, the new DRI survey observes that spending is due for a prolonged upswing—with much of the impetus coming from the recent spate of re-authorizations (including the 1986 Safe Drinking Water Act, the 1986 Superfund Act, and the 1987 Clean Water Act) that are tightening compliance requirements.

Moreover, concern over acid rain damage, unusable beaches, and oil spills are intensifying pressure for further safeguards. Witness the Bush Administrations' proposed strengthening of the Clean Air Act that will ad another $14-18 billion annually to overall investment.

Industries expected to show bigger-than-average 1989 increases in anticipated pollution control equipment include steel (up 39%), autos (84%), aircraft (21%), fabricated metals (30%), stone-clay-glass (33%), paper (63%), rubber and plastics (22%) and textiles (34%).



Excess paper drops prices

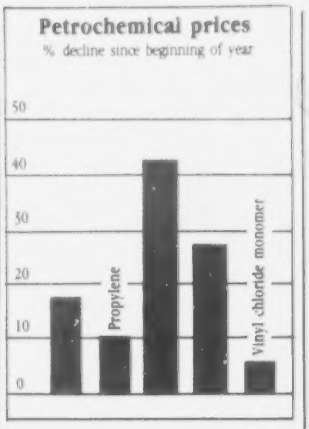
Price declines have become fairly widespread—with excess capacity rather than demand being the prime mover. Over the past month or two, slippages have been reported in newsprint, uncoated free sheet, carbonless paper and corrugated medium. Pulp, too seems to be peaking out as buyers already get about $20/ton off list on hardwood types. And more significant drops are expected in the overall pulp market—as capacity grows 4% a year through 1993, substantially above the estimated 2.8% demand rate.

Sulfur prices close capacity

Plummeting prices are forcing the shutdown of some Frasch producer capacity. Sign of the times: Gulf Coast tags are now in the $80-85/ton range—a sharp 40% under levels prevailing less than a year ago. Behind the easiness: a recent decline in fertilizer demand plus increased competition from Canadian recovered sulfur. According to some estimates, north-of-the-border material is selling for a discount of more than $10/ton below Gulf-area sulfur.

Petroleum keeps slipping

The sharp price declines of earlier this year are still the order of the day. Developments over the past few months or so include another 3¢/lb. drop in ethylene (to 28¢/lb.), another 2¢/lb. drop in chemical grade propylene (to 18¢/lb.), and another 4¢/lb. drop in styrene (to only 36¢/lb.). Upshot: these three basic building blocks are now 18%, 10% and 28%, respectively, under beginning-of-year levels. And all this softness should carry over into 1990 on a combination of low crude oil tags and decelerating end use growth (particularly in the plastics area).

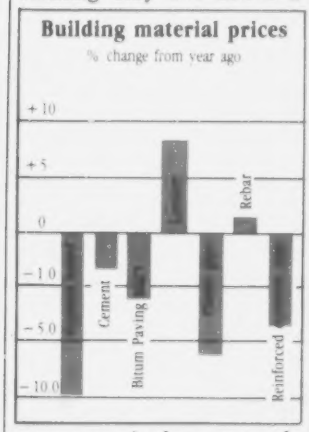


Basic resin heads south

Polyethylene terephthalate, the basic material for most plastic bottles, is heading south. Some 4-5¢/lb. has been whittled off quotes so far this year—and further erosion is likely if feedstock costs continue to decline. Another weakening factor: increased competition from glass in 12 ounce bottles. In any event, demand will be up only 2% this year—a far cry from last year's big 16.5% jump. Combine this with capacity additions, and it's easy to see why utilization rates are down in the 75-80% range.

Building products off

Prices for most metal products are leveling off after last year's big boosts. Example: rebars, which were topping year-earlier levels by 9% in January, are now running only 1% above a



year ago. And some products are actually down. Plastic pipe, for example, now averages 6.5% under a year ago. Also weak is gypsum where wallboard tags this year are expected to average out at only $81/thousand square feet—off significantly from last year's $90.50 figure. But softwood lumber continues to buck the easing trend and is currently running 8% ahead of 1988.

Zinc demand falls slowly

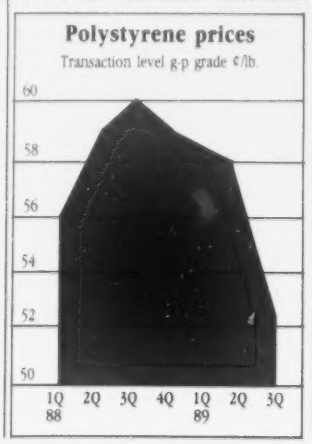
Downward pressure should become evident by early next year—as demand for corrosion-resistant galvanized steel used in cars slowly falls. Combined with some rise in output, this should make for an increase in producer inventories. Indeed, global stocks are already 18% above a year ago. All this is bound to make for softer prices—with tags for the upcoming year expected to average 65-70¢/lb.

Can aluminum go still lower?

Conditions may be ripe for still lower prices. Certainly, there is little chance of any bounceback to the $1.13/lb. peak of earlier this year. Reason: the supply/demand balance has shifted, (75-80%) rates are anticipated for 1990 as demand slackens and another 6.5-7% is added to industry potential.

Polystyrene prices soft

Polystyrene price tags are weakening, with the general purpose/crystal grade now moving in the 49-51¢/lb. range—off a full 10¢/lb. from year-earlier levels. Credit the slippage to sharply lower feedstock costs and vastly improved market balance. On the latter score, the industry this year will probably operate at only 82% of its potential—*versus* 87% in 1988. And even lower (75-80%) rates are anticipated for 1990 as demand slackens.



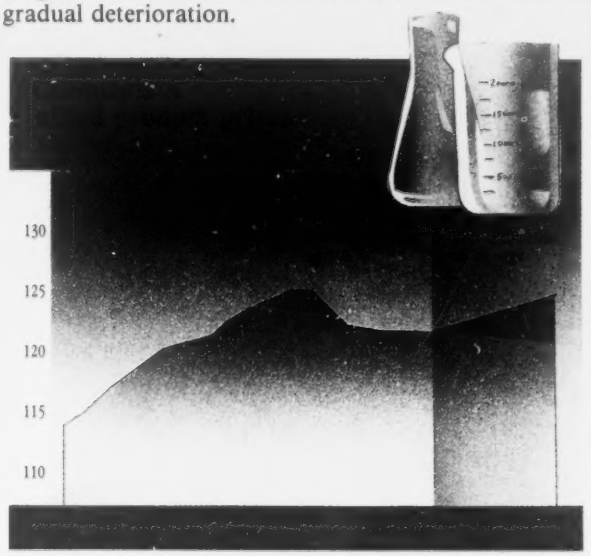
Chemical prices flatten

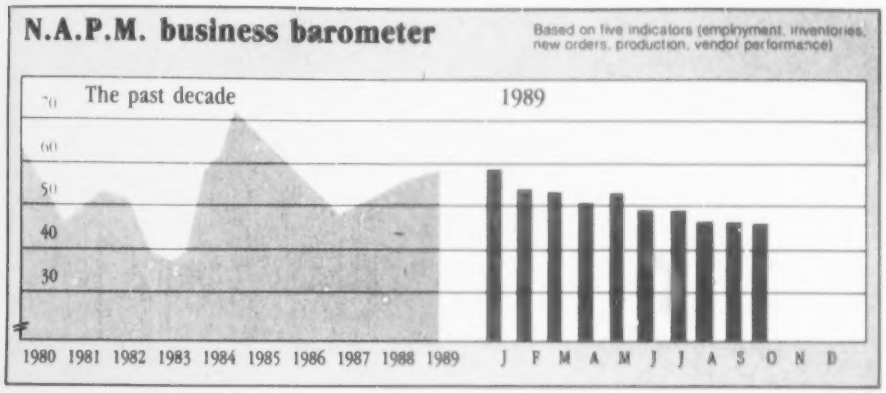
CURRENT SITUATION: The price curve is flattening out. Credit the respite to a combination of lower operating rates (87% at latest report *versus* 89-90% at the beginning of the year) and somewhat less ebullient demand. And there have been some price declines, too—**most notably in the petrochemical area where lower tags are being sported by ethylene, propylene, phenol and styrene. Resins haven't escaped unscathed either**—with drops reported in virtually every major thermoplastic over the past few months.

DEMAND: A respectable 5% gain in real output is seen for the current year—down from last year's 8.5% jump but still ahead of the general economic advance. Behind the deceleration: a combination of a slower growing GNP, easing exports (an area accounting for 35% of total industry shipments), and a modest inventory correction which is putting a temporary damper on new purchases. Looking further ahead—**next year's output is likely to decelerate further—to about 3%.**

SUPPLY: Factory utilization rates are likely to continue their slow decline—thanks to huge new plant and equipment investments. This year, for example, capital outlays are expected to add an impressive 7% onto the industry's overall production potential. And preliminary indications point to another 5.5% capacity jump next year. Far in excess of current demand projections, **this suggests a several point drop in the industry's overall operating rate.**

PRICE OUTLOOK: Buyers should increasingly be in the drivers seat. In any case, it's hard to see any significant advance—given both the above supply/demand outlook and the likelihood that a continuing oil glut will put a cap on petrochemical feedstock tags. **Best bet: a mixture of declines and increases should keep price averages constant over the next few months.** But look for gradual deterioration.




N.A.P.M. business barometer
Based on five indicators (employment, inventories, new orders, production, vendor performance)
The past decade
1989
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1980 1981 1982 1983 1984 1985 1986 1987 1988 1989
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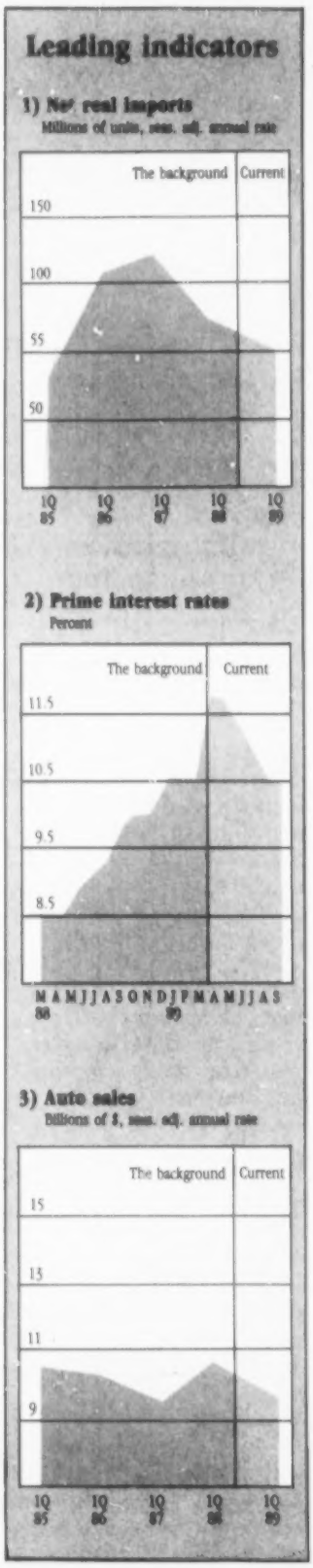


KEY ECONOMIC TRENDS

1990 looks good, dip comes in '91

Depressing economic news is creating much anxiety in the business world but not to worry. Brian Beaulieu, president, ITR Associates Inc., Contoocook, NH, says "1990 will be fine, it's 1991 you should be worrying about." He is "anticipating better times in 1990 than what you are going through right now."

The consulting arm of the Institute for Trend Research, ITR told an economic outlook seminar in Manchester, NH, the trends it is tracking are currently shifting from negative to positive and 1990 will be a reasonably healthy year. It told attendees to "stand ready to capitalize on the positive changes anticipated for 1990, while at the same time being sensitive to the probability of economic contraction."

That contraction, ITR predicts, will be a classical, across-the-board, recession starting in the 3rd quarter of 1990 with a peak in industrial production coming in July or August. He sees the recession reversing itself by year-end 1991 with 1992 being a "good year, witnessing a normal strong recovery with that rising trend continuing until 1993." It'll be, Mr. Beaulieu contends, a dip which will be longer, but dynamically about the same as in 1981.

ITR sees total U.S. industrial production next year up about 4.2% (see table on how that compares with other countries) but slipping in 1991 by 2.6%.

The good news is that inflation should continue to be moderate for the next two years. It'll finish this year in the 4.6-4.9% range and slump to the 3.4-4.4% range in 1990. ITR contends the recessionary year of 1991 will see even less inflationary pressure and may even witness some raw material price declines. Beyond that, ITR sees inflation rearing its ugly head again in 1992 and grow to become a national problem by 1994-95.

The trend watchers' analysis of short term interest rates (see chart) is less positive. It sees them dipping to a 1989 range of 8.53-8.68% but advancing as much as 75 basis points by the second quarter of 1990. Rates of more than 10% are expected by 1990's fouth quarter. The level of long term rates is not expected to change significantly, ITR reports.

Other ITR predictions:

- Passenger car sales (see

1990 world economic outlook

Percentage rate of growth in...

	Inflation	Industrial production
Japan	2.9	7.9
United States	3.9	4.2
Canada	5.3	4.1
Germany	2.1	3.9
Italy*	5.7	3.5
United Kingdom	5.2	1.5
France*	2.5	1.1

*Lower rate of growth than in 1989
Source: ITR Associates, Inc.

chart) this year will slip to the 7.007-7.223 million unit range and decline further in 1990 to a range between 6.488 million and 6.759 million units. A dip to below 6.682 million units would reflect the lowest production performance since 1983

● Housing starts this year will end up in the 1.43-1.47 million unit range. By mid-1990, they'll trend up slightly to a range of 1.47-1.52 million units but again slump by year-end 1990 to the 1.42-1.47 million range.

How government salaries compare

How much do purchasing managers earn these days?

The definitive answer will come next month when *PurchasingWorld* releases its new annual wage survey. Meantime, here are some tentative estimates—based on two other recent studies:

● **Uncle Sam:** The Labor Department, which uses this past March as a cut-off date, divides buyers into four categories. The top group (Level IV), types who are responsible for purchasing technically complex, often custom-made items, average $46,058 a year.

On the other hand, those at the lowest end of the ladder (Level I), types who are purchasing commonly available "off-the-shelf" items from local sources, earn only $23,013 on average.

● **The American Purchasing Society:** This Port Richie, FL-based outfit shows a salary average of $25,700 for the low-end buyer category—not so much different than the government's bottom level. The highest paid executives (directors of purchasing) pull down $53,900—again not all that different from the government estimates for its top-level purchasing group.

Comparisons with two years earlier (1987) are also given by the Florida group. The top-level directors show the biggest gain (30%) over the two years. And those dubbed "purchasing managers" reportedly are getting about 15% more.

On the other hand, low-end buyers for the most part are hard put to equal much less surpass their 1987 salaries. And so-called "purchasing agents" actually show a modest decline over this same two-year period.

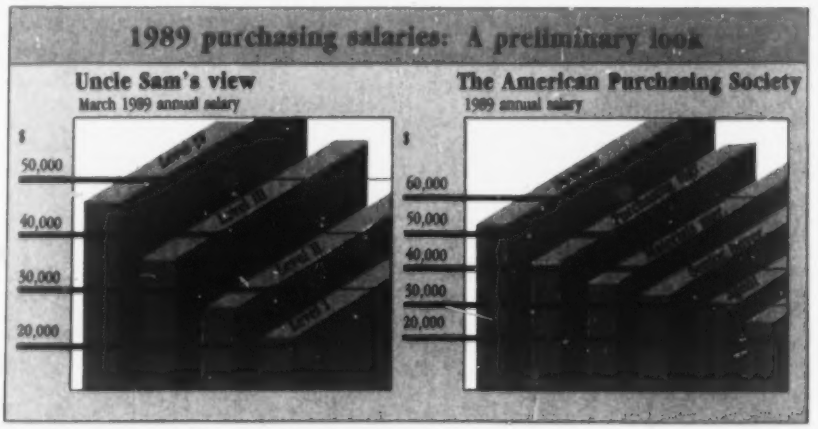
CURRENT PRICES

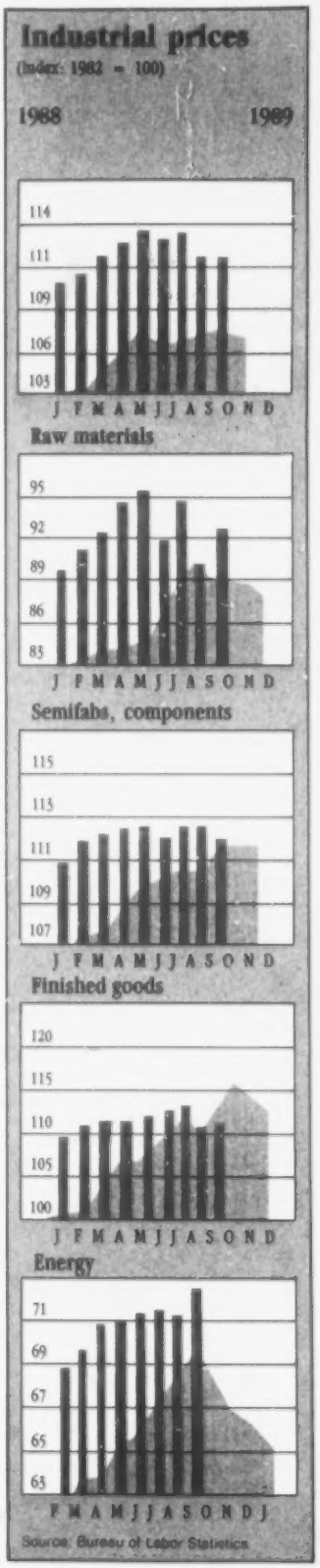
Inflation remains under control

Industrial producer prices inched up a bit last month, but a good part of this was due to a jump in energy tags. Subtract this out, and the overall advance was negligible—with the non-energy average still running under late spring levels.

More important, preliminary information suggests a continuing of this relatively optimistic trend for the current month. One reason: energy quotes are now starting to level off. Also on a positive note—a substantial number of declines are still appearing in *PW's* monthly tabulation (see accompanying table). Roughly one out of every five items monitored is still edging lower.

Indeed, some price declines even managed to creep into the energy sphere where residual oil dropped a significant 3.5% over the past month. On the other hand, this was more than offset by boosts in gasoline, home heating oil, natural gas, diesel fuel and crude oil. Upshot: overall energy





tags were up a solid 2.6%.

Capital goods also advanced during the past month. But blame part of this on the introduction of higher-priced 1990 models. Other items were more mixed—with increases in construction machinery and transformers offset by lower quotes on textile machinery and communications equipment.

Metals also showed diverging trends. Aluminum and nickel were down, but copper was up. And while steel lists moved up, reports of discounting (not reflected in government price indexes) probably brought actual transaction prices down.

The best news as far as buyers are concerned is centered in the chemical and allied product areas where softness has appeared in inorganic chemicals, organic chemicals, plastic resins, and manmade fibers.

Paper also remains on the easy side. Items reported lower here include paper bags and shipping sacks. True, fine paper lists have bottomed out. But this ignores current heavy official discounting in uncoated free sheet.

To sum up—the inflation picture, as measured by Uncle Sam's price watchers, remains under control. And while government spokesmen usually don't make forecasts, they're now hinting at only a modest 2-3% annual rate of rise in overall industrial producer prices over the next 3-6 months.

Distribution costs drop

There's some encouraging news on the distribution cost front. Outlays for such key services as warehouse space, order processing, transportation, inventories, and labor are declining—at least when expressed as a percentage of sales.

A new Davis Database study found this key ratio was down a significant 11.9% last year.

Nevertheless, the Englewood Cliffs, NJ consulting firm sees little room for complacency—noting that another one of its ratios (cost per hundredweight) has been holding rather constant in recent years. Davis Database's conclusion: much of the near-term improvement in the sales ratio may be due to higher selling prices rather than to any "real" or physical improvement in distribution.

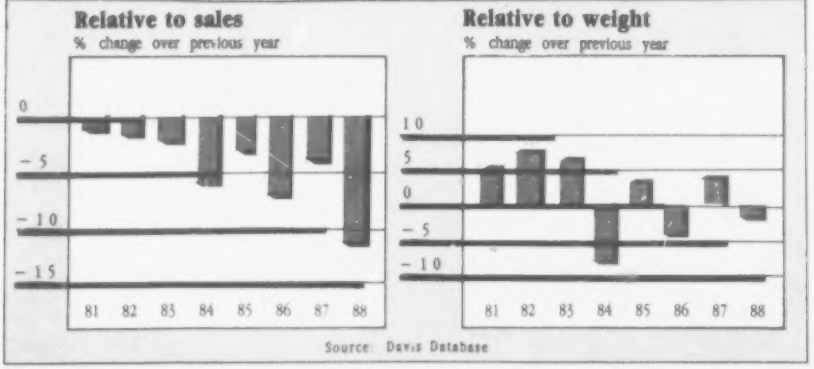
One big potential area for cost reduction, says Davis Database, is warehousing. Worth exploring in this sphere: a shift away from owning one's own facilities and toward "contract warehousing" whereby the company gets dedicated space, labor and management without the cost burdens of ownership.

The new study also cautions that the all-industry ratio can be deceiving—with major variations occurring within industry groups. On a percent of sales basis, the lowest ratio is noted in the high value (over $15/lb.) pharmaceutical category where only 3.62¢ per each dollar of sales goes for distribution.

In the manufacturing sector, however, durable distribution costs average out in the 7-8¢ per-dollar-of-sales range. Nondurables are clocked in at only slightly lower 5.5%.

Distribution costs on a dollar/cwt basis show similar wide variation. In the manufacturing area, for example, they range from $9/cwt for industrial nondurables to over $29/cwt for consumer durables and over $35/cwt for industrial durables.

A perspective on distribution costs



Source: Davis Database

PROCUREMENT STATUS REPORT

Leadtimes drop to new low

The nation's big industrial buyers are increasingly calling the signals these days—as a combination of a flattening production curve and still-rising capacity makes for an improving supply situation.

The NAPM (National Assn. of Purchasing Management) vendor delivery index, for example, dropped to 43.8 last month—the fifth consecutive decline to the lowest level in nearly 7.5 years. It means speedups are now running well ahead of slowdowns—a sure-fire sign of improved availability.

Easing markets are further confirmed by the fact that only eight items are now on the NAPM short-supply list—down from 12 the previous month and less than half the 20 or so reported tight as recently as this past spring.

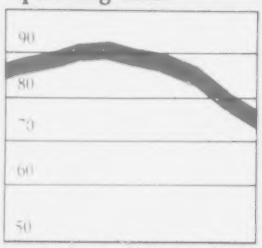
Conspicuous by their absence are such key product lines as steel, aluminum, plastic resins, most chemicals, and electronic components. On the other hand, there are still some problem areas—most notably in bearings (listed for the 14th straight month because of anti-dumping actions) and castings (listed for the 10th time in 13 months).

And if still more confirmation of softening is needed, take a look at *PW's* leadtime index which dipped to 47. That's three percentage points under the neutral 50 mark—and reflects shrinking leads on a growing number of items.

Not surprising, all this

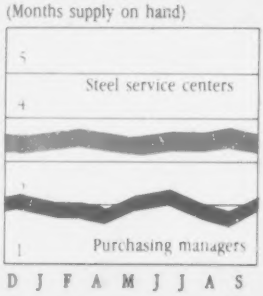
Steel

Operating rates



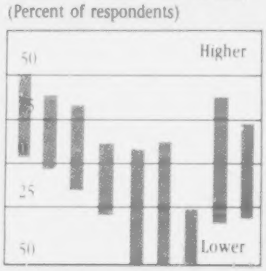
Inventories

(Months supply on hand)

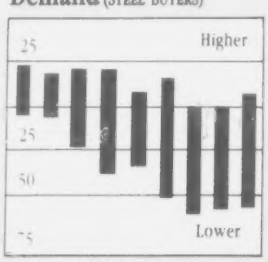


Demand (STEEL SERVICE CENTERS)

(Percent of respondents)



Demand (STEEL BUYERS)



Source: Steel Service Center Institute
NAPM Steel Buyers Committee

has also translated into easier prices. Specifically, the NAPM price increase index has dropped to 43.1 (with 50 again equalling neutral)—and currently is holding at its lowest level in more than three years.

Queried PMs add that these lower quotes, combined with expectations of further erosion, are also prompting them to keep a tight rein on inventories. In fact, these holdings have been falling steadily now for nine straight months.

Where do we go from here? Judging from current capacity and production projections, this easier trend should persist into early 1990—accompanied by further shrinkage in leads and continued price softness especially in such demand-sensitive areas as raw materials and semi-fabricated goods.

STEEL SCENE

Hope for steel pickup fading

Hopes for even a modest pickup in steel demand this fall are beginning to fade.

Distributors and steel buyers are pretty much agreed on this. Indeed, both groups are now expecting a less rosy demand trend than they did just one month ago.

Purchasing managers responding to the latest NAPM (National Assn. of Purchasing Management) steel survey are perhaps the more gloomy. An impressive 61%, for example, expect to reduce their purchases of metal during the current (4Q)—far outweighing a minuscule 9% who feel some acceleration may be in the cards.

True, the gap between bullish and bearish distributors responding to the latest Steel Service Center Institute (SSCI) survey isn't quite as dramatic (34% see declines *versus* 23% who are hopeful of increases).

The reasons for the less buoyant outlook are not all that hard to find—with reduced auto production probably being the most important factor. The coming slowdown is also suggested by SSCI president Andrew G. Sharkey who notes that 45% of his group's membership expect a drop in overall economic activity over the next three months—three times more than a year ago.

On a somewhat rosier note, Mr. Sharkey isn't quite as concerned about top-heavy inventories as he was a few months back. He notes some declines of late, both absolutely and in terms of months' supply. But this is being counterbalanced by a modest rise in PM steel holding—though overall tonnages here do not seem to be all that much out of line with final use.

But whether inventories are up or down relative to a month ago, the future trend here seems clear: both PMs and service centers are determined to bring stocks down even further over the next few quarters. Some 73% of queried buyers, for example, contemplate a decline in their inventory levels over the next three months. Distributors suggest a similar trend—as 51% rate their stocks as being high *versus* the 2% who dub them as "too low."

Such stock paring estimates may be a bit exaggerated. They usually are. Nevertheless, some fair-sized cutbacks are likely—with perhaps as much as two million tons dropping from buyer and service center shelves over the next six months.

Equally important, the increasing availability of steel should allow such retrenchment without too many worries about the need to fill in an occasional stockout or two in a hurry. More to the point: an impressive 82% of buyers say they expect to have few if any problems in getting what they want when they want it this fall and winter. Indeed, only coated sheet is mentioned as a possible problem by more than one respondent.

Anticipated price weakness could be yet another reason for cutting back on forward buying. It's no secret, for example, that discounting is endemic in most flat-rolled products.

Since such discounts are becoming increasingly widespread, they also implied that the average realized mill steel price is edging lower. One estimate sees the average tag falling to near $515/ton by early next year—about 4.5% under recent spring highs.

Steel service centers would seem to agree about such price softness. An impressive 41% responding to the latest SSCI survey, for

Import prices

(compared to domestic)

Steel buyers
ABOVE 41%
SAME 28%
SLIGHTLY BELOW 28%
SUBSTANTIALLY BELOW 3%
SERVICE CENTERS (carbon)
ABOVE 2%
SAME 79%
5-10% BELOW 19%
10-20% BELOW 0%
OVER 20% BELOW 0%

example, are talking in terms of lower tags over the next six months.

Certainly the easing supply-demand situation supports such projections. Right now, it's doubtful whether the industry will be shipping more than 19.5-20 million tons of metal in each of the first two quarters of the new year.

That's in sharp contrast to the 21.7 million quarterly average of a year earlier. Moreover, with steelmaking capacity holding firm, it points to only about an 80% industry operating rate—down significantly from the near 90% peak prevailing in the early part of the current year.

Finally, import competition could also be a price factor in the quarters immediately ahead. In recent months both distributors and buyers report that overseas producers have become a bit more active in seeking U.S. orders.

This month's breakdown

Index: 1982 = 100

	Latest level (Sept.)	% change from: Month ago	Year ago
Bearings	125.5	0.8	6.1
Bolts, nuts, etc.	113.0	0.4	6.0
Chemicals, inorganic	107.8	−1.3	7.2
Chemicals, organic	112.8	−1.6	0.6
Concrete products	111.4	0.2	1.4
Corrugated cartons	112.6	0	1.4
Cutting tools, small	112.0	0.1	4.4
Electric lamps (bulbs)	124.9	−0.1	1.2
Electronic components	119.6	0	1.0
Fans and blowers	119.9	0.3	5.7
Foundry and forge products	115.3	0.2	4.4
Fuel oil (residual)	46.8	−3.5	15.8
Furniture, commercial	130.1	0.2	3.4
Gasoline	64.9	03.0	12.9
Glass, flat	109.9	−0.2	−0.8
Glass containers	116.3	−0.1	3.6
Gypsum products	109.1	1.0	−1.4
Hand tools	128.7	0.5	6.3
Hand tools, power driven	117.0	0	4.7
Industrial furnaces	125.2	0	3.0
Integrating and measuring instruments	120.4	0.1	5.0
Internal combustion engines	116.0	0.5	3.3
Lubricating oil	112.0	0.3	4.7
Lumber millwork	128.0	−0.1	4.3
Material handling equipment	112.6	0.2	4.0
Metal containers	113.0	1.9	1.5
Metal mill shapes (nonferrous)	136.9	0.7	2.8
Metal tanks	111.4	0	4.7
Motors and generators	130.0	0.3	5.5
Motor trucks	123.6	−1.0	3.3
Office and store equipment	109.8	0	2.0
Paperboard	140.3	0	3.0
Paper boxes and shipping containers	131.1	0.4	4.5
Paper office supplies	122.3	0	4.9
Paint	120.8	0.2	6.2
Plastic resins	129.2	−2.1	−7.0
Precision measuring tools	125.3	0	3.2
Pumps and compressors	115.9	0.1	5.4
Refractories	119.9	0	5.1
Rubber belts and belting	116.7	2.1	7.5
Scales and balances	106.7	0.2	0.4
Steel products	114.3	0.2	2.2
Switchgear	119.2	0	4.8
Textiles, synthetic fibers	106.6	−0.6	8.1
Textiles, gray fabrics	115.5	−0.2	1.0
Tires and tubes	97.4	0.1	2.6
Transformers and power regulators	118.8	0.3	9.0
Welding equipment	122.5	0	2.9
Wire and cable	146.4	2.4	13.5

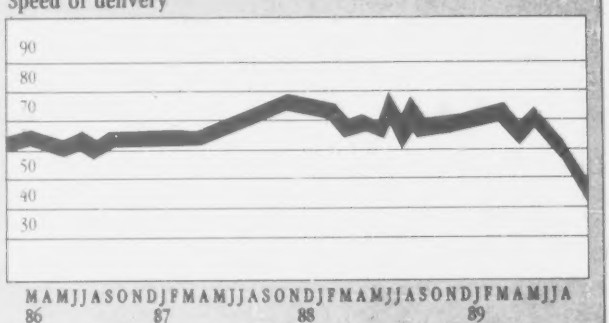
NAPM procurement trends

(seasonally adjusted diffusion indexes)

An index where 50 is defined as the neutral level, to the extent a reading is above 50, it represents an expansionary tendency. More particularly, rising inventory prices, and new orders are seen as positive signs of economic growth. A trend toward slower deliveries is similarly interpreted.

Inventories

Speed of delivery



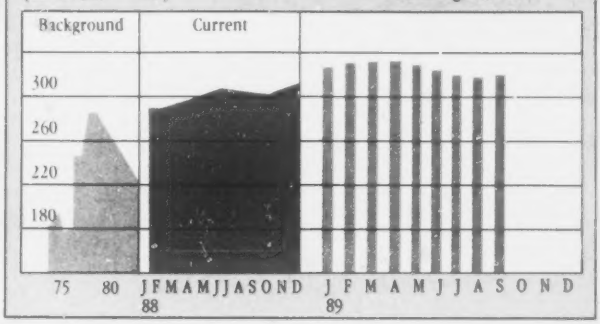
Prices

New orders

Raw material price barometer

(Index 1967 = 100)

Last month 327.0
Month before 325.0
Year ago 306.4



Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	23.90	23.90	23.90
Steel, bars, dlvd. Phila., cwt., merchant quality	18.70	18.70	16.50
Steel, bars, Pitts., cwt.	18.70	18.70	16.50
Steel, bars, C.R., Pitts., cwt.	23.95	23.95	19.45
Steel, plates, Pitts., cwt.	23.25	23.25	22.75
Steel, plates, H.R., Pitts., cwt.	23.25	23.25	22.75
Steel, sheets, C.R., Detroit, cwt.	29.65	29.65	28.15
Steel, strip, C.R., Chi., cwt.	36.18	36.18	36.18
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	.805	.810	1.010
Antimony, N.Y., dealer, lb.	.94	.90	1.05
Beryllium-copper, cost ingot, lb.	5.90	5.90	5.90
Brass, red, 85%, [sheet], lb.	1.98	1.97	1.88
Brass, yellow, [sheet], lb.	1.94	1.93	1.84
Cadmium, N.Y., dealer, lb.	6.00	4.60	6.20
Copper, electrolytic, wire bars, refd., lb.	1.35	1.34	1.25
Copper sheet, over 24 in., lb.	2.07	2.06	1.97
Lead, common, N.Y., lb.	.44	.44	.40
Magnesium, pig ingot, [99.8%], lb.	1.63	1.63	1.58
Mercury, 20 fl. lots, N.Y., fl.	260.00	262.00	310.00
Molybdenum, oxide, dealer, lb.	3.18	3.26	3.49
Nickel, cathode, dealer, lb.	4.90	5.20	4.98
Platinum, dealer, oz.	488.00	474.00	520.00
Silver, N.Y., oz.	5.21	5.10	6.40
Tin, N.Y., dealer, lb.	3.92	3.97	3.36
Zinc, Prime West, East St. Louis, lb.	.80	.80	.69
Zinc, die casting alloy, No. 3, lb.	.885	.895	.805
PAPER			
Uncoated book #3 offset, ton	960.00	1020.00	955.00
Watermarked bond, ton	1090.00	1090.00	1080.00
Gummed sealing tape, carton	18.93	18.71	17.98
Grocery sacks, ton	495.00	495.00	460.00
Solid bleached paperboard, ton	780.00	780.00	685.00
Kraft linerboard, 42 lb., unbleached, ton	410.00	410.00	410.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	.285	.284	.276
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.22	1.22	1.20
Cotton middling, 1", N.Y., lb.	.683	.688	.505
Printcloth, 48", 80x80, N.Y., spot, yd.	.50	.50	.48
Army duck, 37", 13 oz., yd.	1.40	1.40	1.51
Blended printcloth, 64", 78x54, yd.	.80	.78	.66
20s combed yarns	1.94	1.94	1.96
Wool 64s, Staple, lb.	3.50	3.50	4.50

	Latest price	Previous month	Year ago
CHEMICALS			
Acrylonitrile, tanks, lb.	.42	.42	.36
Ammonia, anhydrous, tankcars, Gulf Coast, ton	68.00	70.00	91.00
Benzene, petroleum, tanks, Houston, gal.	1.25	.98	1.18
Caustic soda, 76% solid, drums, carlots, cwt.	28.00	28.00	26.00
Cresylic acid [over 25%], tanks, lb.	.55	.55	.55
Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb.	.106	.106	.106
Glycerine, synthetic, tanks, lb.	.845	.845	.735
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	.32	.42	.58
Naphthalene, crude, tanks, lb.	.16	.16	.22
Phthalic anhydride, tanks, lb.	.40	.40	.35
Polyethylene resin, low density liner film grade (market place), lb.	.360	.390	.515
Polypropylene, homopolymer grade (market price), lb.	.410	.420	.510
Polystyrene, general purpose grade (market price), lb.	.500	.505	.600
Polyvinyl chloride, pipe grade (market price), lb.	.365	.375	.440
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	.355	.365	.470
Sulfur, crude, ex-terminal, Tampa, Fla., lt.	117.50	117.50	132.00
Sulfuric acid, 66%, commercial, tanks, ton	69.89	66.86	66.86
Titanium dioxide, anatase, reg., carlots lb.	1.02	1.02	.95
Xylene tanks, gal.	.875	.875	1.000
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl	344.50	343.50	329.80
Lumber 2x2 pine, mbf, cl	329.70	339.45	314.70
Plywood, plyform, ¾", msf, cl	602.61	598.00	569.20
Plywood, ⅜", msf, cl	365.86	360.17	387.70
Cement, bulk, ton, tl	62.85	63.34	64.42
Sand, ton, cl	7.00	7.01	7.16
Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd.	48.09	47.99	48.41
Crushed stone, 1½", ton, cl	N.A.	N.A.	N.A.
Concrete blocks, sand/gravel, 8"x8"x16", per hundred	89.04	89.04	85.61
Reinforcing bars, whse base; per cwt	22.04	22.55	20.94
Asphalt paving AC-20	105.80	107.22	115.64
Vitr. Clay Sewer Pipe, Prem Joint, 12", per ft, cl	N.A.	N.A.	N.A.
Concrete sewer pipe, 24", prem. joint, per foot, cl	17.94	17.83	N.A.
FUELS			
Crude oil (W. Tex Int Cush), bbl.	20255	19.85	14.10
Diesel (reseller rack, Chi), gal.	.595	.568	.388
Fuel oil No. 2 (N.Y.), gal.	.5925	.5475	.4100
Fuel oil No. 2 (Gulf spot), gal.	.551	.538	.374
Fuel oil No. 6 (N.Y.) contract cargo, bbl.	20.00	18.50	15.00
Gasoline (reg lded NY), gal.	.6560	N.A.	.5100
Gasoline (reg unlded NY), gal.	.5710	.5950	.4900
Kerosene (reseller rack, Chi), gal.	.675	.651	.435
Propane (Mt. Belvieu, Tex), gal.	.2213	.2160	.1975
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	97.00	99.00	117.00
Steel, No. 1 hvy., dlvd., Chi., ton	101.00	108.00	115.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	1.210	1.150	1.060
Copper, No. 2, East, wholesale buy, dlvd., lb.	1.115	1.060	.925
Brass, red, East, wholesale buy, dlvd., lb.	1.170	1.110	1.020
Brass, yellow, East, wholesale buy, dlvd., lb.	.620	.615	.470
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	.480	.510	.610
Alum., mixed clip., E., wholesale buy, dlvd., lb.	.560	.570	.700
Zinc, old, East, wholesale buy, dlvd., lb.	.30	.38	.240
Lead, clean solids, East, wholesale buy, dlvd., lb.	.240	.240	.245
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	Nom	Nom.	20.00
Paper, old corrug. box, dlr., N.Y., ton	Nom.	Nom.	5.00
Old newspapers, Chi., ton	Nom.	Nom.	5.00
Old white ledger, Chi., ton	110.00	90.00	85.00

[Sources: Metals Week, American Metal Market, Engineering News-Record (20-city averages), The Wall Street Journal, Journal of Commerce, Chemical Marketing Reporter.]

Inflation watch—
Price hikes seen slowing

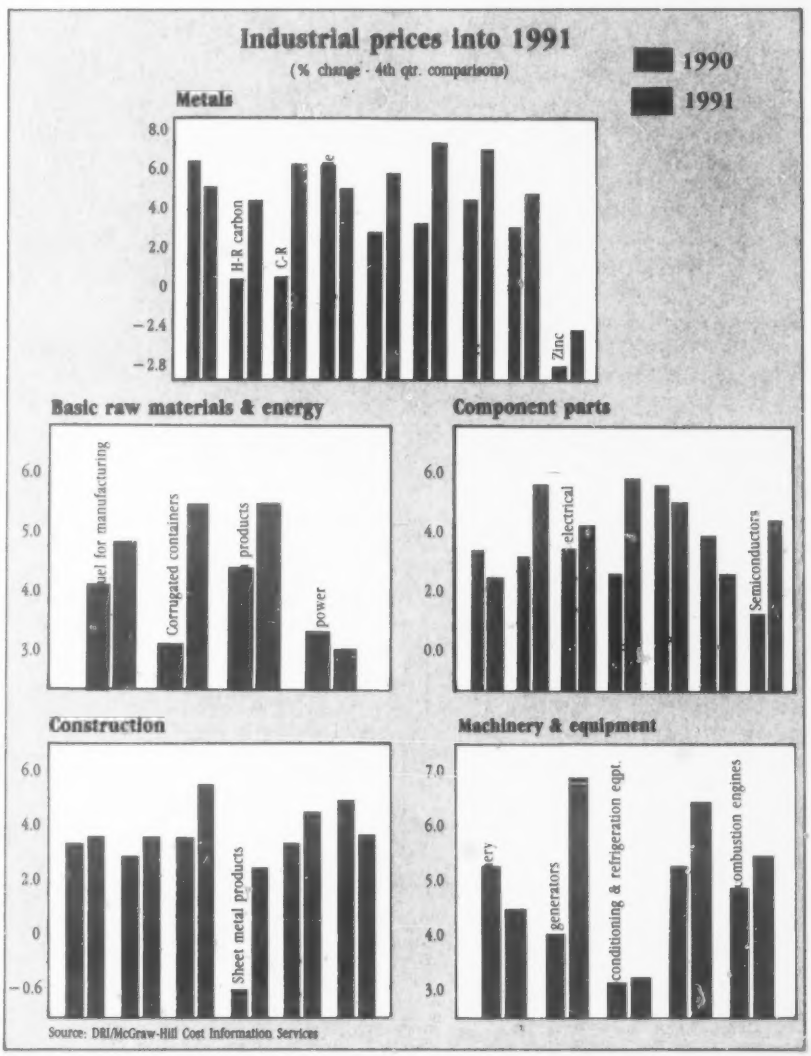
Slowing economic growth should continue to have a moderating effect on inflation—but any deceleration will be slow and gradual.

That's how Data Resources, Inc. (DRI) analysts see the price picture developing over the next few years. But that doesn't mean there's room for complacency. The Lexington, MA-based econometric consulting firm feels, for example, that labor could be something of a problem.

DRI figures that compensation per hour could rise 5.6% and 5.8% in 1990 and 1991, respectively. That's significantly above last year's 4.7% advance and the 5.4% estimated increase for the current year.

All in all, finished goods prices are expected to advance only 4.3% this year—far under the 9% annual rate noted earlier. Much of the deceleration, however, will be centered in crude materials. Example: DRI's forecasts actually show fractional declines here for the third and fourth quarters. And next year's increase is put at under 1%.

But crude materials are only part of the price equation—and averages never tell the whole story. In any event, there looks to be considerable variation in the rate of change on a product-by-product basis—with key areas through 1991 shaping up something along these lines:



● Energy: refined petroleum products (reflecting earlier crude oil cost jumps) are projected to rise 13.1% for the year. But next year's increase will be only 2.9%—and for 1991 only a slightly bigger 5.0% increase is seen. Natural gas will increase more rapidly—6.4% next year and 7% in 1991 as demand and supply come into better balance.

● Steel: the list-oriented producer price index which increased 8.3% last year decelerates to an increase of 4.9% this year and 3.0% in 1990. As for 1991—hikes accelerate a bit (to 4.7%). Behind the continuing advances in list: high costs of primary inputs and recent labor contracts.

● Nonferrous metals: negative signs are expected to predominate over the next few quarters—primarily because of relatively flat industrial production and construction activity. Aluminum, for example, should be under 95¢/lb. by late next year. And copper, despite a recent rally, is put at under $1.20/lb. at that time as new supplies come into the market. Nickel, too, will be soft—and should be running about 40-45¢/lb. under current levels by late 1990.

● Chemicals: weakening domestic demand (only partially offset by

strong exports) should restrain industrial chemical increases—holding gains to 0.6% in the fourth quarter.

In 1990 quarterly gains of about 1.4% are seen. But by 1991, increasing capacity should hold these quarterly gains to only 1.1%.

● Machinery and equipment: slowing capital outlays will limit price boosts. Example: overall machinery and equipment tags are targeted to rise only 4.1% next year and 4.6% in 1991—not much more than this year's estimated 3.7% rise. Prices of general purpose machinery will be even more severely affected—with this year's estimated 5.2% advance dropping off to 2.1% and 3.0% in 1990 and 1991, respectively.

● Electronic components: figure on prices rising only 3.2% this year, 3.5% in 1990, and 4.0% in 1991. Switches will lead the boosts—with price gains of 6.1% in 1989, 6.0% in 1990, and 3.5% in 1991. Microprocessors look to be weakest—increasing only 2.6% this year before slipping 4.3% in 1990 and 4.4% in 1991.

Labor wage rate growth may jump, could be problem for inflation.

● Construction materials: fabricated structural metal products, a bellwether sub-index, is forecast to increase 5.5% in 1989, 3.2% in 1990, and 4.1% in 1991. Another typical item: plumbing fixtures, where 6.6%, 3.0% and 4.3% boosts are anticipated over this three year period.

● Paper: increases will continue to taper off—averaging out at around 0.8% per quarter in late 1989 and 0.6-0.7% per quarter during both 1990 and 1991. Corrugated should follow suit—with average quarterly increases put at only 0.7-0.8% through the end of next year and 1.3% during 1991.

● Transportation services: DRI projects industry costs rather than industry price trends. Their average quarterly estimated increases here from now through the end of 1991: air freight 0.9%, interstate trucking 1.1%, and railroads 1.8%. Assuming costs are a barometer of rates, this implies about a 4-5% annual rate of increase in freight tabs over each of the next two years. ***PW***

Advertisement

Innovative Company's Purchasing Software May Obsolete Many Mainframe Computers

Holmdel, New Jersey — Purchasing departments worldwide are known for their mountains of paperwork, "fire-fighting" environments, and tight budgets. Yet, incredibly, in this cost-conscious business atmosphere, some companies are still using expensive mainframe computers to streamline their purchasing activities.

American Tech, Inc. of Holmdel, New Jersey, has a solution to the cost vs. efficiency problem for savvy purchasing department managers. They've developed a PC-based, automated purchasing system called P.O. WRITER PLUS. According to company CEO Tim McEneny, the recently released 6.0 version of the software runs faster, is easier to use, is more complete, and is a fraction of the cost of mainframe software.

Metz Metallurgical, South Plainfield, New Jersey, implemented P.O. WRITER PLUS in 1986. Dick Alberti, Purchasing Manager for the company, recently had this to say about the software. "We considered a mainframe purchasing system but realized that we were years away from getting anything done in that area. I needed help right away and P.O. WRITER PLUS could be implemented immediately." Alberti and one assistant now generate and track over 7,000 P.O.'s per year using P.O. WRITER PLUS on an IBM PS/2 Model 50.

"The most important criteria for selecting a software package is ease of use," McEneny states. "P.O. WRITER PLUS is designed for non-systems people," he adds. Harold Rogers of Bowater, another P.O. WRITER PLUS user, agrees. "I'm just a country boy from Alabama. If I can use it, anybody can," he says.

"It's amazing how much more you can get done with P.O.WRITER PLUS," McEneny says. "A typical increase in productivity is 30 - 40%," he says.

Peggy Marx, Purchasing Manager at XTEX, a Cinncinati-based company, concurs. "P.O. WRITER PLUS has far exceeded my expectations. When our business increased by 30%, the increase in paperwork would have required an additional person in Purchasing. With P.O. WRITER PLUS, the 30% was absorbed."

Other companies look at the savings in a different light. Dave Granata, Purchasing Manager of Prodigy (an IBM and Sears partnership) says "It's the next best thing to the $100,000 mainframe packages. From a price performance point of view, you can't go wrong with P.O. WRITER PLUS."

For additional information on P.O. WRITER PLUS, call American Tech at (201) 946-8844. American Tech has offices at 22 S. Holmdel Road, Holmdel, New Jersey 07733.

— Kent Moore

Circle 169 on card

U.S. census shows...
PM's role more important

Purchasing's role in a firm's overall operations may be a lot larger than most people think. If there's any doubt on this score, take a look at the accompanying chart.

Based on figures supplied by the U.S. Census Bureau, it shows that manufacturers' purchases of materials and services have consistently been accounting for over 50% of the sales dollar. Put another way, purchasing by far makes up the biggest dollar segment—something that suggests a lot of leverage on bottom-line performance.

This buying leverage is further magnified by the fact that a dollar saved in purchasing goes right to the earnings line. That's in contrast to a dollar increase in sales where only a percentage of the increase is translated into profits (the exact amount is dependent on the firm's specific profit margin).

As for your own individual operations, how much influence you have also depends on the particular industry in question. The 50%-plus figure quoted above, for example, is an average of literally hundreds of industries.

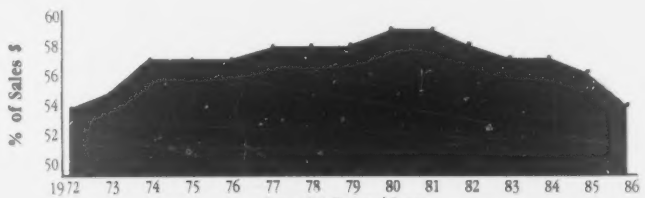
But averages can be deceiving. As shown in the accompanying table, the percentage of the sales dollar attributable to purchasing can vary from under 30% to as high as 85%.

Generally speaking, high labor-intensive industries (the electronic component sector is a good example) tend to have low purchased materials/sales ratios. At the other end of the spectrum, however, are low labor-intensive industries (like petroleum refining) where material purchases tend to play a larger role.

Also worth noting: There is no discernible trend in those ratios over time. There are year-to-year variations in the average ratio (see chart), but they are in large part due to changes in product mix. Other things being equal, when the ratio falls it means that in that particular year high labor-intensive industries tended to lead the pack. ***PW***

Purchasing's Role in the Sales Dollar

(An overview)



Source: U.S. Bureau of Census

Purchasing's role in the sales dollar

(Industry-by-industry details)

Industry	% of sales	Industry	% of sales
Food	64	Structural clay prod.	41
Tobacco	33	Pottery	33
Textile mill products	60	Concrete, gypsum, plaster	53
Narrow fabric mills	44	Primary metals	63
Knitting mills	55	Steel furnaces	63
Textile finishing	68	Iron & steel foundries	44
Floor covering mills	72	Primary nonferrous metals	76
Apparel	51	Nonferrous foundries	47
Lumber	60	Fabricated metal products	50
Millwork	61	Metal containers	66
Wood containers	58	Plumbing & heating	47
Furniture & fixtures	47	Fabricated structural metals	55
Household furniture	50	Metal forgings & stampings	53
Office furniture	39	Non-elec. mchy.	47
Paper & products	55	Metalworking mchy.	36
Pulp mills	58	Construction mchy.	52
Paperboard mills	55	General indust. mchy.	43
Containers & boxes	61	Bearings	39
Printing & publishing	34	Electric & Electronic eqpt.	43
Chemicals & products	49	Electric distributing	44
Industrial inorganics	44	Motors & generators	44
Industrial organics	60	Household appliances	55
Synthetics (ind. plastics)	59	Communication eqpt.	38
Drugs	29	Electronic components	38
Paints	54	Transportation eqpt.	60
Petroleum & coal	83	Motor vehicles	69
Petroleum refining	85	Aircraft	49
Rubber & plastic prod.	49	Instruments	35
Leather & products	53	Engineering & scientific	37
Stone, clay, glass	46	Measuring & control	35
Flat glass	40	Optical	39
Cement	48		

Source: U.S. Bureau of Census

And a similar situation seems to be shaping up for the actual resins. Next year's resin price projections tell the story—with these average changes (*vis a vis* 1989) currently being forecast: low-density polyethylene (-9.3%), high-density polyethylene (-10.9%), polypropylene (-11.3%), polystyrene (-12.4%) and polyvinyl chloride (-13.0%).

Declines of this magnitude have to have an impact on plastic packaging prices. And if you add in continuing keen competition among producers, it's easy to explain WEFA's projection for an overall 3.1% decline.

This is all in sharp contrast to what happened last year when soaring resin costs forced a huge 13.5% jump in overall plastic packaging tags. Moreover, this price decline is coming at a time when most other packaging types will be steady or slightly higher in price.

● **Glass:** prospects for long-term demand growth continue to be poor, notwithstanding the industry's strong showing this year. Reason: the inherent disadvantages of glass containers.

This makes for an inexorable shift toward plastic and metal types as the container of preference –a trend that should accelerate over the next year or so.

Meantime, glass container manufacturers seem to be having trouble making recent price increases stick—with only part of last spring's 5-6% boost on food and beverage containers holding up.

No big change in the glass pricing climate is anticipated over the upcoming year—especially if WEFA projections of slowly falling demand materialize. Thus glass container manufacturers will not even achieve this year's watered down 3% gain in 1990—as excess capacity and inter-modal competition limit next year's overall glass container price advance to only around 2.5%.

What does this all add up to in the way of change in overall packaging costs? WEFA doesn't present any composite estimate for the industry as a whole. But if one weighs each price change by estimated dollar sales, 2% is suggested.

PW survey shows

Packaging buyers

It's been a fairly good year for packaging buyers. To be sure, prices continue to edge up. But the overall increases have been tapering off of late—with the advances now far under those experienced in 1987 and 1988.

Lest there be any doubt on this score, look at the chart below. Generally speaking, price hikes over the most recent 12-month period have been moderate...and far lower than those reported just six months ago (see *PW*, 5/89, page 51).

It might also be pointed out that purchasing managers, responding to a new nationwide *PW* survey, reduced their estimated 1989 overall packaging increase—from the 5% projection made this past spring to about 4% presently.

Also indicative of change is the fact that Uncle Sam's all-inclusive container price index is showing some signs of leveling off. Thus after rising 5% last year, and by even faster rates earlier this year, increases have been slowing down of late—with little or no change noted since early summer.

More important, the *PW* survey suggests that this deceleration will continue. Respondents put their overall packaging cost advance for next year at only near 3%, with a fair number hopeful of doing even better than that.

This continuing moderation, incidentally, is also confirmed by Wharton Econometric estimates (see accompanying story). That suggests only about a 2% advance for the upcoming year, with seven of the nine specific categories examined expected to show some deceleration.

All this in no way is meant to imply that price increases won't be hurting some PMs. Just a few weeks ago, for example, tinplate makers announced price hikes of about 5%. And aluminum beverage canmakers, despite two earlier failures, may again try to boost prices. But this latter move is not likely to be successful because of a big capacity overhang.

One thing for sure, the runup in another type of container—plastic bottles—is over. Reason: the key raw material (polyethylene terephthalate) has dropped 4-5¢/lb. since the beginning of the year. Other things being equal, this would seem to preclude a repeat of the past 12 months when plastic bottle tags jumped by close to 8%.

And what's true of rigid plastic containers also holds for plastic films. More to the point: with thermoplastic resins dropping on a broad front, film tags are under increasing pressure for similar declines.

The price outlook for corrugated containers is also looking better—at least from the buyer vantage point. PMs responding to the new PW survey, for example, now report more decreases than increases—and all say they are bargaining hard on this item.

Packaging buyers also project a change in the overall demand pattern. Where they were buying increasing volumes both in 1988 and this year, they now see a relatively flat trend developing in 1990. Some

gaining more clout

two-thirds of the respondents to the *PW* survey, for example, see little change for the upcoming year. And the 22% who are contemplating volume decreases actually outnumber the small 14% who feel further increases are possible.

But while demand may stay relatively stable overall, plastic bottles should continue to move ahead. A new study by Frost and Sullivan on blow-molded containers notes that these products should capture 23.4% of the entire container market by 1992.

While on the subject of plastics, another study (this one by the Freedonia Group) sees dollar growth of blister and skin packaging advancing at near a 20% annual rate through 1993.

This switch to plastics is one way buyers hope to keep overall packaging costs within bounds. But there are other ploys, too—with an increasing number of respondents reporting increased use of long-term contracts.

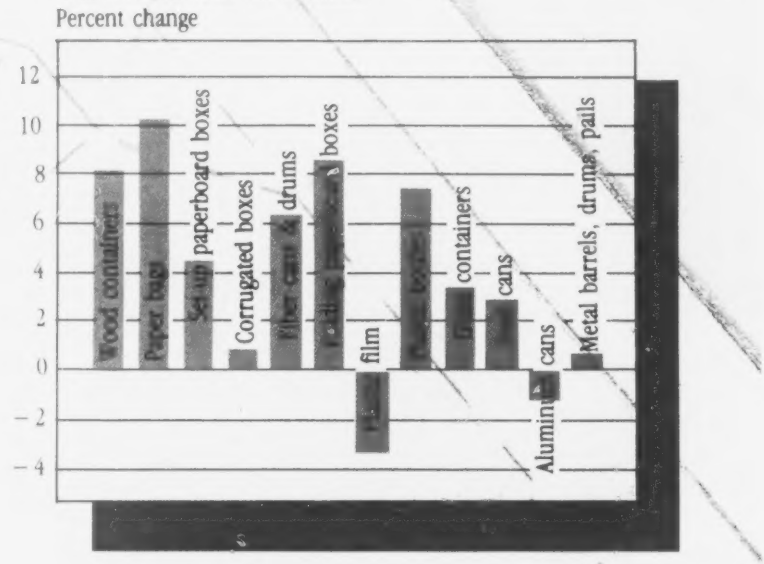
Nor does this exhaust the list of cost-saving approaches. Other tacks being taken include more intensive review of packaging costs, redesign of packaging, more uniform packaging, use of lighter gauge materials, and closer liaison with vendors.

This latter development toward buyer-seller cooperation may become increasingly important over the longer pull as Uncle Sam moves to cut down on packaging pollution.

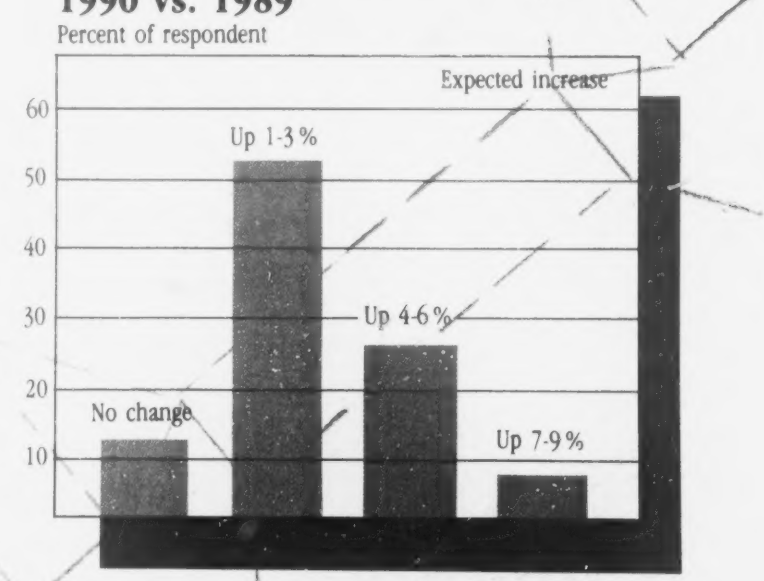
But such government action is still a ways off. Meantime, the basic packaging outlook can only be characterized as being encouraging. As one *PW* reader sums it up, "sellers are no longer calling all the signals. The ball is in our court—and with a little hard bargaining, we feel we can keep packaging cost increases next year at least on or even two percentage points under the general inflation rate." ***PW***

Packaging prices: the buyers view

The last 12 months



1990 vs. 1989



Source: Bureau of Labor Statistics, PW Estimates